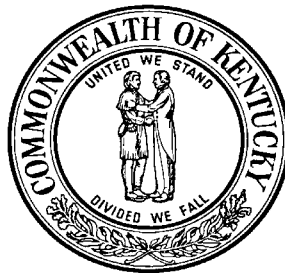


**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES**

August 21, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FAX (502) 564-2912



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Members of the Whitley County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Whitley County Sheriff's Settlement - 2000 Taxes and 2000 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Whitley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES**

August 21, 2001

Berger & Ross, PLLC
Certified Public Accounts and Fraud Examiners
800 Envoy Circle
Louisville, KY 40299-1837
(502) 499-9088
Fax: (502) 499-9132

400 Democrat Drive
Suite 2107
Frankfort, KY 40601
(502) 695-7353

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WHITLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND 2000 UNMINED COAL TAXES

August 21, 2001

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement 2000 Unmined Coal Taxes for Whitley County Sheriff as of August 21, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,344,032 for the districts for 2000 taxes. The Sheriff distributed taxes of \$4,159,578 to the districts for 2000 Taxes. Taxes of \$259 are due to the districts from the Sheriff and refunds of \$435 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$622,095 To Protect Deposits.

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(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-0132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member
American Institute of CPAs
American Society of Certified Financial Planners
National Society of Accountants
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Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the Whitley County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of August 21, 2001. These tax settlements are the responsibility of the Whitley County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Whitley County Sheriff's taxes charged, credited, and paid as of August 21, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Michael Patrick, Whitley County Judge/Executive
Honorable Ancil Carter, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$622,095 To Protect Deposits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
July 18, 2002

WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

August 21, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 493,231	\$ 533,429	\$ 1,532,405	\$ 809,436
Tangible	94,862	99,752	171,245	310,497
Intangible				78,677
Fire Acreage	4,152			
Additional Bills	2,331	2,513	3,940	3,906
Oil, Gas, Limestone, Sand and Gravel Taxes	9,672	10,460	48,705	15,857
Correcting Erroneous Tax Assessments	239	258	765	2,180
Penalties and Interest	5,691	6,110	19,917	10,369
Franchise Corporation Taxes	101,605	112,332	330,930	
Gross Chargeable to Sheriff	<u>\$ 711,783</u>	<u>\$ 764,854</u>	<u>\$ 2,107,907</u>	<u>\$ 1,230,922</u>
<u>Credits</u>				
Exonerations	\$ 11,197	\$ 12,039	\$ 36,248	\$ 24,089
Delinquents	43,031	46,145	146,160	73,364
Unpaid Franchise Taxes	6,290	6,504	12,665	
Discounts	8,069	8,630	21,887	16,883
Total Credits	<u>\$ 68,587</u>	<u>\$ 73,318</u>	<u>\$ 216,960</u>	<u>\$ 114,336</u>
Net Tax Yield	\$ 643,196	\$ 691,536	\$ 1,890,947	\$ 1,116,586
Less: Commissions*	<u>27,623</u>	<u>29,390</u>	<u>75,638</u>	<u>47,742</u>
Taxes Due Districts	\$ 615,573	\$ 662,146	\$ 1,815,309	\$ 1,068,844
Less Taxes Paid	615,045	661,777	1,888,676	1,068,022
Less Current and Prior Year Refunds	573	627	2,064	902
Add Commissions Refunded From Schools To Sheriff			<u>75,638</u>	
		**	***	
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (45)</u>	<u>\$ (258)</u>	<u>\$ 207</u>	<u>\$ (80)</u>

*, **, and *** See Page 4

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 August 21, 2001
 (Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	2,441,318
	4% on	\$	1,890,947
**Special Taxing Districts:			
Library District		\$	(252)
Health District			(14)
Extension Service District			4
Soil Conservation District			4
			<hr/>
Due Districts or (Refunds Due Sheriff)		\$	<u>(258)</u>
***School Districts:			
Common School District		\$	(44)
Corbin Independent District			251
			<hr/>
Due School or (Refund Due Sheriff)		\$	<u>207</u>

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
 ANCIL CARTER, SHERIFF
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES

August 21, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 280	\$ 303	\$ 1,412	\$ 54
Gross Chargeable to Sheriff	\$ 280	\$ 303	\$ 1,412	\$ 54
<u>Credits</u>				
Exonerations	\$ 3	\$ 3	\$ 14	\$ 0
Delinquents	29	31	145	21
Discounts	5	5	25	1
Total Credits	\$ 37	\$ 39	\$ 184	\$ 22
Net Tax Yield	\$ 243	\$ 264	\$ 1,228	\$ 32
Less: Commissions*	10	11	49	1
Taxes Due Districts	\$ 233	\$ 253	\$ 1,179	\$ 31
Less Taxes Paid	233	253	1,228	31
Add Commissions Refunded From Schools To Sheriff			49	
Due Districts as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ 0

*Commissions: 4.25% on \$ 539
 4% on \$ 1,228

The accompanying notes are an integral part of the financial statements.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

August 21, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 12, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$622,095 of public funds uninsured and unsecured.

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 August 21, 2001
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 12, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,110,930
FDIC Insured	100,000
Uncollateralized and uninsured	<u>622,095</u>
Total	<u>\$ 2,833,025</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 21, 2000 through June 29, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2000 through June 29, 2001.

Note 4. Interest Income

The Whitley County Sheriff earned \$13,547 as interest income on 2000 taxes. As of August 21, 2001, the Sheriff is due a refund in interest of \$465 from the Common School District, \$132 from the Corbin Independent District, and the Sheriff owes \$921 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Whitley County Sheriff collected \$23,171 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Whitley County Sheriff collected \$1,051 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). As of August 21, 2001, the Sheriff owes \$412 in advertising fees to his fee account.

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COMMENT AND RECOMMENDATION

WHITLEY COUNTY
ANCIL CARTER, SHERIFF
COMMENT AND RECOMMENDATION

August 21, 2001

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$622,095 To Protect Deposits

On August 21, 2001, \$622,095 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

We will take care of this.

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REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Members:

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Government Auditing Standards Board
National Association of Public Accountants
National Association of Tax Professionals
Government Finance Officers Association

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the Whitley County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of August 21, 2001, and have issued our report thereon dated July 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of August 21, 2001 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$622,095 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Whitley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
July 18, 2002

